

INLAND
Natural Gas Co. Ltd.
1968 Annual Report

AR12



DIRECTORS

Norman R. Whittall	Chairman of the Board, Inland Natural Gas Co. Ltd.
Fred B. Brown	Vice-President, The Bank of Nova Scotia
William Manson	Retired, former Regional Vice-President, Canadian Pacific Railway
Cyrus H. McLean	Chairman, B.C. Telephone Company
John A. McMahon	President, Inland Natural Gas Co. Ltd.
Roderick M. Hungerford	President, Clayburn-Harison Ltd.

All directors reside in Vancouver, B.C.

OFFICERS

John A. McMahon	President and Chief Executive Officer
Fred B. Brown	Vice-President
Ronald M. Rutherford	Executive Vice-President
Donald R. MacPhail	Vice-President and Secretary
Richard B. Stokes	Vice-President, Finance

HEAD OFFICE

1155 West Georgia Street, Vancouver 5, B.C.

REGISTRAR

Canada Permanent Trust Company, Vancouver, B.C.

TRANSFER AGENT

Canada Permanent Trust Company,
Vancouver – Calgary – Toronto – Montreal

AUDITORS

Riddell, Stead, Graham & Hutchison

WHOLLY-OWNED SUBSIDIARIES

Peace River Transmission Company Limited
St. John Gas & Oil Co. Ltd. (N.P.L.)
Grande Prairie Transmission Co. Ltd.
Inland Development Co. Ltd.
Inland Transmission Co. Ltd.
Inland Development (1957) Co. Ltd.

15th Annual Report for the fiscal year ended June 30, 1968

ANNUAL MEETING—10:30 A.M. P.D.T., OCTOBER 21st, 1968, GEORGIA HOTEL, VANCOUVER, B.C.

COVER PHOTOGRAPHS—

CONSTRUCTION TO UTILIZATION

*Front cover shows construction
of the Peachland/Westbank
transmission line against a
background of Okanagan Lake.*

*Back cover illustrates the clean
blue flame of natural gas being
used in a modern kitchen.*

HIGHLIGHTS

	1968	1967	1966	1965	1959
Sale of Gas	\$13,307,665	12,988,672	10,553,566	9,177,852	2,947,097
Operating Revenue	\$13,787,500	13,447,619	10,981,425	9,732,723	3,811,844
Net Income	\$ 2,548,421	2,489,022	1,806,199	1,537,517	147,271
Net Income per Common Share	92c	89c	60c	49c	(4c)
Dividends paid per Common Share	42.5c	35c	27.5c	25c	—
Dividends paid per Preference Share	\$ 1.00	1.00	1.00	1.00	1.00
Fixed Assets	\$46,532,865	44,118,129	41,536,729	38,949,864	31,802,259
Accumulated Depreciation and Depletion	\$ 5,493,654	4,598,504	3,749,355	2,936,085	538,792
Number of Customers					
Residential	29,437	27,133	24,508	22,020	9,203
Commercial	4,318	4,013	3,687	3,355	1,347
Special Construction*	58	219	398	20	—
Small Industrials	78	79	73	58	10
Large Industrials	24	23	19	19	9
Total	33,915	31,467	28,685	25,472	10,569

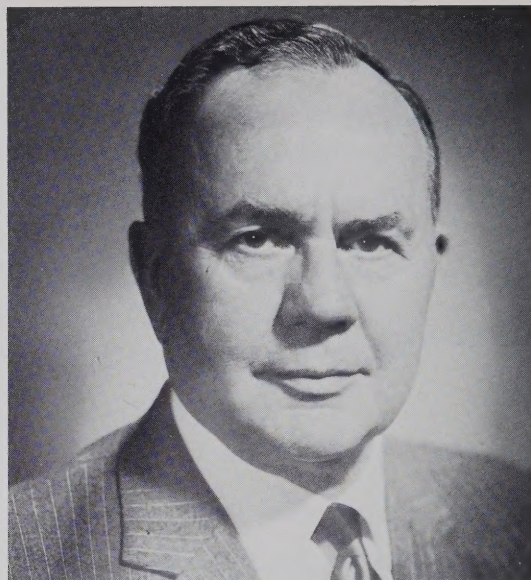
* Rate no longer available

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TO OUR SHAREHOLDERS

British Columbia is growing faster than any other part of Canada: the population increased 15% between 1961 and 1966. The trend continues. The province registered the largest percentage increase over the past year gaining 3.3%, or 64,000 persons, bringing the total population above two million. British Columbia's population is expected to exceed three million by 1985.

Between 1956 and 1966 the population of the urban centres now on the Inland system increased by 58%. According to a study made for our company by the British Columbia Research Council, the Canada census figure of 204,000 (60,500 households) is expected to reach 300,000 (88,000 households) by 1975. In the 1975-85 period they estimate the population will increase to 420,000 (122,600 households). This increase in population means a greater demand for new homes, schools, hospitals, and new industries which will result in an increasing demand for natural gas service. Enclosed is a brochure which provides background material and will be helpful in assessing the economy and potential of the service area.

Over 90% of new construction of residential and commercial properties within economic reach of our distribution systems has been attached since natural gas became available in 1957. Because natural gas has only been available in our service area since that date, it is estimated that only 45% of the dwelling units in the area are presently using natural gas. Therefore, the anticipated growth in population and the competitive position natural gas enjoys in respect to other automatic fuels suggests that a high rate of customer growth can be expected.

The exceptional growth of the area is the key to record earnings that were achieved again during the fiscal year under review in this report. It is a pleasure to report that the earnings per common share were 92c compared to 89c in the previous year, and that the quarterly dividend rate payable May 15, 1968, was increased from 10c per share to 12½c per share. These results were accomplished despite the fact that there was a long, drawn-out strike in the forest industry, and an estimated \$400,000 reduction in revenue as a result of a rate cut that was implemented May 1, 1967.

The outlook is exceedingly promising. Hardly a week goes by without an announcement of a new industry locating in our service area. Just within the last few months three major industries have been announced: LaFarge Cement of North America Ltd. at Kamloops, Consumers Glass Company Limited near Vernon, and a proposed pulp mill at Ashcroft. In addition to these, two pulp mills are slated to come into production at Mackenzie, and another at Quesnel, all within the next three years.

The world's largest potential consumer market is across the Pacific, and this province with its great resources, its people, and its stable government provides an unusual opportunity for growth.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "J. R. Mahon". The signature is fluid and cursive, with a horizontal line underneath the name.

September 20, 1968

President

THE YEAR IN REVIEW

Revenue

Inland's gas revenues, sales volumes and number of customers again reached new highs in the 1968 fiscal year. The volume and dollar value for each classification is set out in the table below and on the graphs to the right.

Other operating revenue, which is generated mainly from the sale of gas appliances and financing plans, increased to \$264,920 from \$247,457 in the previous year.

	Mcf (000)	\$ (000)	%
Residential	3,424	3,994	31.9
Commercial	2,702	2,748	21.9
Special Construction	38	28	.2
Small Industrial	1,688	1,142	9.1
Large Industrial	12,218	4,633	36.9
	<u>20,070</u>	<u>12,545</u>	<u>100.0</u>

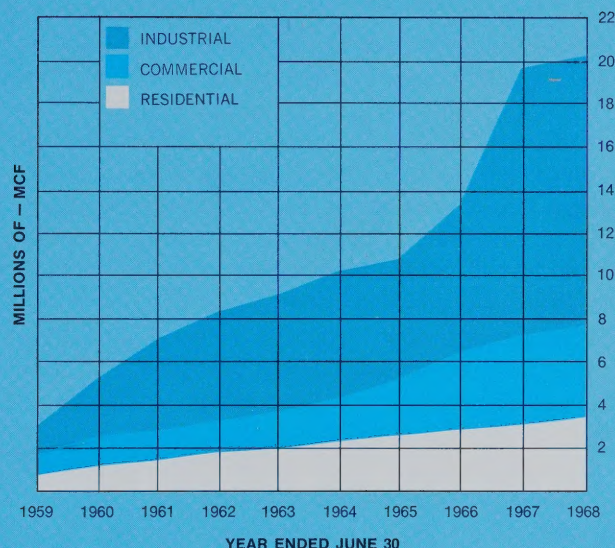
Operating Expenses

The cost of purchasing our natural gas is a major component of operating expenses. During the year under review Inland's outlay on this item was \$5,972,000, compared to \$5,695,000 in the previous year.

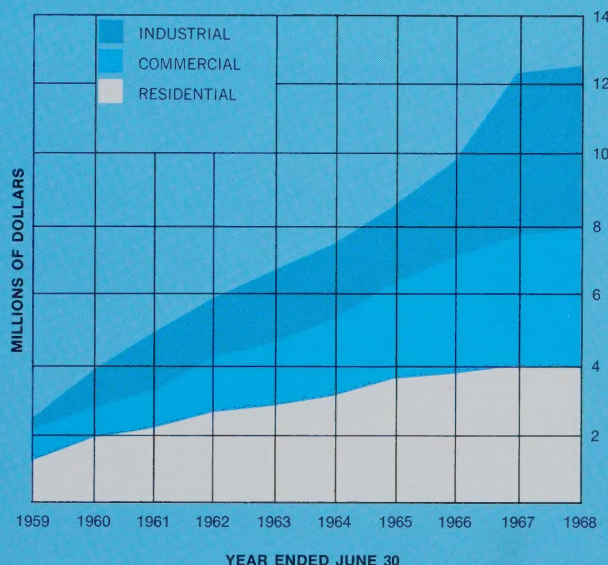
Operating and maintenance expenses were lower by \$89,000. The majority of this decrease was due to a substantial reduction in advertising and promotional expenses during the year. The Company felt that with the general tight-money situation and the resulting decrease in new housing starts, coupled with the fact that there had been much favourable publicity after our last rate reduction in May 1967, extensive advertising and promotion programmes would not be required during the year.

The Company employs, on the average, approximately 200 employees which is about the same as the previous year. All employees share in benefit programmes

ANNUAL GAS SALES—VOLUME



ANNUAL GAS SALES—REVENUE



such as pension plan, medical services, sickness and disability insurance and group life insurance. The total of salaries and wages including benefits for the current year was \$1,481,000. A major portion of new plant construction is performed by the Company's own work-force and therefore a substantial portion of salaries and related costs are capitalized.

Your Company continues to be an important contributor to the welfare of the communities it serves. This year approximately \$558,000 was paid out in franchise fees and property taxes.

Income Taxes

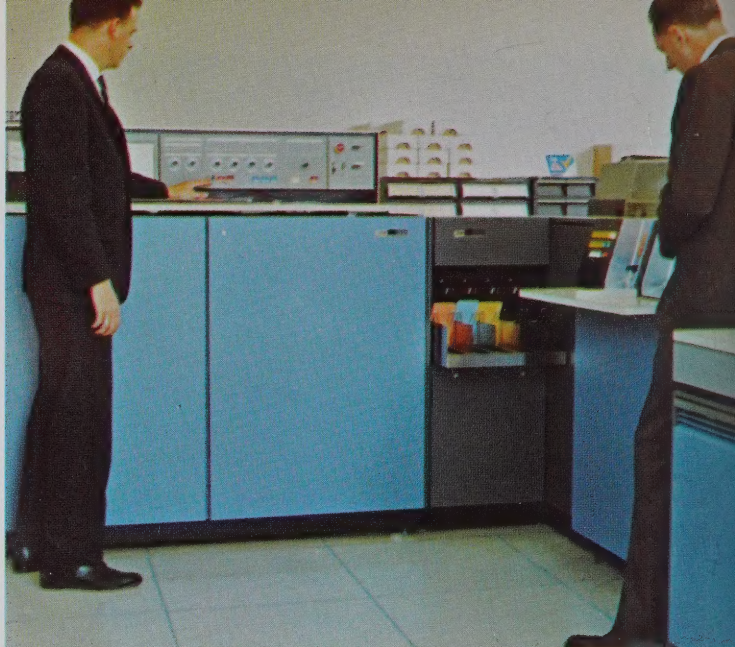
Reference was made in the last annual report that Inland's utility operations had not yet attracted any income tax, and that income tax would be payable for the first time in the 1968 fiscal year. However, on the advice of our auditors, the Company in filing its 1967 Income Tax Return made a retroactive adjustment in its treatment of certain overheads capitalized in the books of account. These overheads have now been charged to expense for income tax purposes only. This principle has been accepted by the Income Tax Department and therefore no income tax expense was incurred during the year under review.

The Company follows the policy of taking the maximum capital cost allowances available under the Income Tax Act. These capital cost allowances are materially in excess of depreciation, calculated in accordance with rates prescribed by the Public Utilities Commission and recorded in the books of account.

The Company's loss-carry-forwards for tax purposes, created as described above, are now almost exhausted and forecasts indicate that income tax will be incurred in the ensuing fiscal year. The projected capital programme will, however, for some long period of time allow capital cost allowances substantially in excess of depreciation recorded in the Company's books. This, coupled with the continued expensing of capitalized overheads for tax purposes, will result in a relatively low percentage of income tax in relation to net income.

Sinking Fund

During the year long-term debt was reduced by \$631,000 through the operation of the Sinking Fund. The securities were acquired by the Company on the open market at a discount, and were applied to satisfy sinking fund requirements.



Capital Expenditures

In the fall of 1957 your Company commenced gas service to approximately 5,000 customers in 25 towns and communities. This coming year Inland will be sending out in excess of 40,000 bills per month to customers in 50 communities. In order to keep pace with this growth and enable us to continue to improve service to our many customers, Inland has entered into an agreement for the installation of an IBM Model 360/20 computer similar to the one photographed above. We are already billing our appliance customers on the computer through a service bureau and we will convert all of our gas customers to computer billing during the summer of 1969. Future computer applications include inventory, payroll and general accounting.

Company growth has also dictated the need for increased office space. Pictured below left is the new 29-storey MacMillan Bloedel Building situated at 1075 West Georgia Street. Your Company has taken a long-term lease on the entire nineteenth floor of this structure. The relocation scheduled for January 1969 will increase Head Office floor space from the present 7,800 square feet to approximately 13,000 square feet. This increased floor area will provide space for the new Data Processing Department, installation of telemetering instrumentation, and allow room for future growth in all departments.

Approximately 93 miles of transmission line, distribution mains and services were installed during the year ended June 30, 1968. Construction commenced in the latter part of May on transmission and distribution facilities to supply the communities of Princeton, Peachland, Westbank, Coldstream, Falkland, Naramata and Midway. Large industrial customers which were provided with service during the year included Intercontinental Pulp Co. Ltd. and Union Oil Company of Canada Limited in Prince George, and Eddy Match Company in Nelson. The total capital expenditure during the year ended June 30, 1968 was \$2,802,000.

Marketing and Sales

It is mentioned elsewhere in this report that Inland is extending gas service to ten new communities in your Company's general service area. Several promotional programmes were developed to obtain maximum results from these new markets including a public education exhibition featuring the modern convenience of natural gas appliances and services. Information was presented to municipal councils, service clubs, chambers of commerce, and other groups. This was followed by door-to-door canvassing. In all cases where twenty-one year franchise agreements were submitted to voters, returns were overwhelmingly favourable.

Continued cooperation with appliance dealers, together with Inland's equipment financing plan, again resulted in a considerable number of conversions to natural gas from other fuels. The May 1967 gas price reduction from which residential customers obtained full benefits last winter places natural gas in an even more competitive position. Notwithstanding an increased effort on the part of suppliers of competitive fuels, 91% of all new homes on our mains were connected for heating and hot water. In the urban areas, over 50% of the total households are still potential customers. This challenge is being met by extending mains and replacing appliances that are using other forms of energy as they become obsolete.

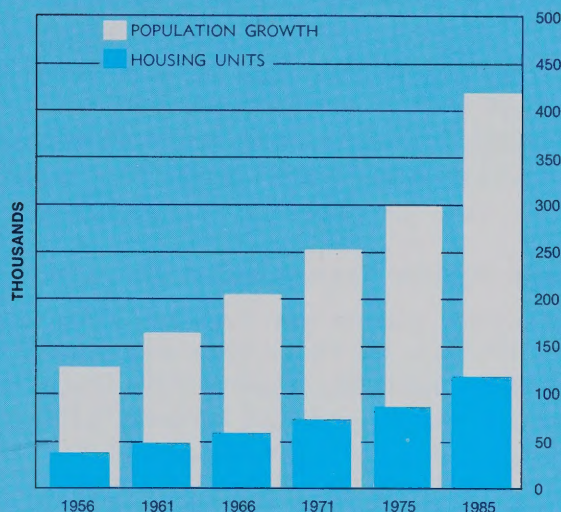
With the high degree of acceptance of natural gas in new construction, the population and housing graph on this page illustrates the potential rapid increase in future sales to that market.

The Company's commercial and industrial Sales Department has been successful in converting numerous plants and commercial buildings to natural gas throughout its system and, by close cooperation with architects and design engineers, insures that natural gas is specified for virtually all new industrial and commercial projects. One of the side benefits from extensive use of natural gas is a noticeable reduction in air pollution in many B.C. Interior cities.

A notable public relations vehicle initiated during the past year was the publication and circulation of a newsletter entitled "The Inlander". This four-page illustrated communication is issued quarterly to all Company personnel and business associates.

POPULATION AND HOUSING

FIGURES TAKEN FROM B.C. RESEARCH COUNCIL REPORT



ANNUAL REPORT AWARDS



R. B. Stokes, Inland's Vice-President of Finance, is pictured above with awards received by the Company for both the 1966 and the 1967 annual reports to shareholders. The 1966 report won first place honors from Toronto's *Financial Post* for public utilities in Canada. The same report was judged third best in its category by the *Financial World* in New York who reviewed over 5,000 entries in its 27th report survey. A Certificate of Merit has been received from the *Financial World* for the Company's 1967 report.

WHOLLY OWNED SUBSIDIARIES

St. John Gas & Oil Co. Ltd. (N.P.L.)

Holds interests in lease selections from former permits 22 and 30 near Fort St. John in northeastern British Columbia.

The Company participates in the production of six natural gas wells and two oil wells.

Grande Prairie Transmission Co. Ltd.

The Company gathers gas from four fields north of Grande Prairie in the Peace River area of Alberta and transmits the gas to the outskirts of the City of Grande Prairie and five other villages between Grande Prairie and Spirit River, where the gas is sold to Northland Utilities Limited for distribution in these communities. Sales for the year ended June 30, 1968 amounted to 1,109 million cubic feet of natural gas compared to 1,113 million cubic feet in the previous year. The slight drop in sales was due to the fact that the average temperature during the year ended June 30, 1968 was somewhat warmer than the previous year. Had the weather been the same as the previous year, the annual sales would have maintained the normal growth of approximately 3%.

During the year the Company constructed 5 miles of transmission line, 1.7 miles of gathering line, and a compressor station to connect a new field to the system.

The Canadian National Railway extension linking Grande Prairie to the C.N.R. mainline near Hinton is nearing completion. This reduces the rail haul 300 miles between northwestern Alberta and the west coast. It is expected that this line will lead to development of a number of major industries along the railway right-of-way. An indication of this is that Proctor & Gamble Co. of Cincinnati are carrying on feasibility studies with the object of constructing a pulp mill in the Grande Prairie area.

Peace River Transmission Company Limited

The Company purchases gas from the gathering system of Westcoast Transmission Company Limited and transmits the gas through 35 miles of transmission lines to the outskirts of the City of Dawson Creek in northern British Columbia, where the gas is sold to Northland Utilities Limited for distribution in Dawson Creek and Pouce Coupe.

Sales for the year ended June 30, 1968 were 1,834 million cubic feet as compared to 1,921 million cubic feet for the previous year. The decrease in annual sales is due to the fact that the British Columbia Hydro and Power Authority's gas-fueled generating plant in Dawson Creek used less gas during the year.

Inland Development Co. Ltd.

The exceptional growth of population of the urban centres now on the Inland distribution system is creating a strong demand for housing and other types of community projects, and naturally your Company wants to play an active part in the development of the area it covers.

For that purpose, consultants have been hired and a new department is being set up which will endeavour to acquire land for possible development in the most suitable centres. Close contacts will be maintained with the municipalities, real estate agents, local plants, builders and developers. We believe that this venture will be of benefit to both the communities we serve and to the Company itself.

As a first step, seven major localities have been selected as favourable locations for land investment and are being closely examined with a view to land purchase in the very near future.

The Company also holds a number of second mortgages on residential and commercial buildings in the northern part of the Inland service area.

COMMUNITY DEVELOPMENT



Benefits of co-operation in community development have been nowhere better demonstrated than at Kelowna, where Inland has been an active partner in an extensive housing project. Here Inland branch manager D. G. Pratt discusses plans with A. Blackford, left, manager of Okanagan Builders' Land Development Co., for the third and fourth stages of the model Mount Royal subdivision. Mr. Pratt is wearing his "Rooftoppers" jacket, emblematic of a special award he received from the National House Builders' Association for outstanding contributors. He is also secretary of the Okanagan Builders' Land Development Co.

Gas Supply and the Link

The Company purchases its firm gas requirements under a long-term agreement with Westcoast Transmission Company Limited. This agreement will remain in effect until October 31, 1991, without any escalation in price until October 31, 1987. The commitment to Inland under this contract is a maximum delivery of 170 million cubic feet per day.

In addition to this contract, Inland has a long-term contract (1992) to purchase up to 24,400 Mcf daily from the Alberta and Southern Gas Co. Ltd.; the price of the gas is calculated on a cost-of-service basis. Before deliveries can be made under this contract an 88-mile transmission line has to be built joining the West Kootenay area of the Inland system with the Alberta Natural Gas Company transmission line near the international border at Kingsgate, B.C.

Under the Westcoast contract, Inland is required to purchase its firm gas at a load factor that cannot economically be met without restricting the firm requirements of industrial customers during peak winter months. Having the Alberta gas available will enable your Company to meet all demands for firm gas service. It would also provide security of service to residential and commercial customers including hospitals, schools, hotels, public buildings, and so forth, in the event of emergencies such as outages. The Company is also faced with increasing the capacity of its existing system to meet the growth in load, and this alternate source will solve that problem. Therefore, this secondary supply of gas benefits all customers regardless of whether they are in the Prince George district, Okanagan Valley, or the West Kootenays.

It is significant that there will be no material change in Westcoast's annual sales to Inland if the link is constructed.

A new application has been filed with the Public Utilities Commission for authority to construct this link. The proposal has been before the Public Utilities Commission on two previous occasions, but the Commission found certain deficiencies in the material supporting the application. In the main, these deficiencies were contractual matters which have now been cleared away. The project will bring natural gas service to the communities of Salmo, Fruitvale, and Montrose which would otherwise be without service. Tremendous benefits will accrue to industry, residential and commercial customers, and to the provincial economy when this transmission line is built and put into service.

Financing

Your Company is proceeding with plans for further permanent financing. Approval in principle has been received from the Public Utilities Commission of British Columbia for an issue of \$3,000,000 First Mortgage Bonds which the Company plans to place in the very near future. This will be followed by an offering of common shares on a rights basis to raise approximately \$2,000,000 sometime in the 1969 fiscal year.

GENERAL

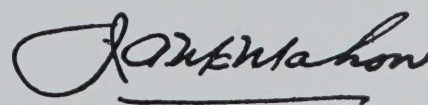
Approximately 93% of the shareholders of Preferred and Common stock of the Company are resident in Canada. The distribution of each class of shares is set forth herewith:

	Shareholders		Shares Held	
	1968	1967	1968	1967
Preferred				
Canada	2,559	2,615	398,747	398,800
U.S.A.	10	9	845	875
Others	8	7	408	325
	<u>2,577</u>	<u>2,631</u>	<u>400,000</u>	<u>400,000</u>
Common				
Canada	4,072	3,509	1,664,444	1,583,352
U.S.A.	399	424	256,708	330,101
Others	90	80	420,473	428,172
	<u>4,561</u>	<u>4,013</u>	<u>2,341,625</u>	<u>2,341,625</u>

All the funded debt of the Company has been placed in Canada, and the principal and interest payments thereon are payable in Canadian funds only.

We have a very loyal and efficient group of employees, which is reflected in the excellent financial results achieved again this year. The Directors wish to record their sincere appreciation for a job well done.

For the Board of Directors



President.

September 20, 1968

NEW PIPELINES TRANSPORT THE BENEFITS OF NATURAL GAS TO ADDITIONAL INTERIOR COMMUNITIES

Transmission and distribution systems to service homes and industries in eight new Interior communities will be completed by autumn of this year. The Company's expansion program will bring natural gas for the first time to Peachland, Westbank, Coldstream, Naramata, Falkland, Midway, Princeton and Westsyde. Preliminary survey and engineering work is being carried out to service the municipalities of Ashcroft and Clinton in early 1969. Pictures on this page illustrate construction of the 4", 23 mile Summerland/Westbank transmission line which has now been completed. Construction of Inland's second major pipeline project which will connect Princeton with 42 miles of 3" lateral is well under way.

Right: Excavating machine is capable of preparing 1 mile of pipeline ditch per day.

Below: A section of plastic coated pipe is held in place for welding. Care is taken to avoid damage to coating or pipe in all phases of construction and back-filling.





Top left: Welder makes one of three separate welds used to complete each joint. Sample joints are x-rayed for quality control.

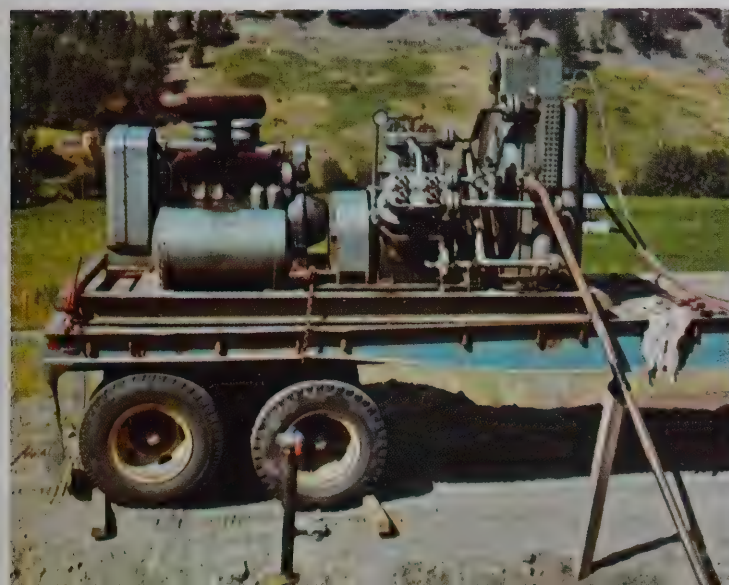
Top right: Machine saws neatly through asphalt. This method minimizes damage, inconvenience and repairs to city streets.

Left: Section of distribution main is lowered into place. Padded clamp is used to avoid pipe damage.

Right: Distribution system is connected to transmission line through pressure reducing equipment.

Below left: Mobile compressor unit pressure-tests transmission system up to 1200 pounds per square inch.

Below right: Contractor, Inland's project engineer, and civic dignitaries at sod-turning ceremony in Princeton.



NEW PLANTS

These two pages feature some of the many new plants and industries locating in Inland's service area. All plants illustrated are Inland customers.



**Top left: GENERAL COACH-
WORKS OF CANADA LTD.
PENTICTON**

*manufactures 2½ completely
furnished 60' mobile homes per
day. Company's future production
target calls for 6 completions
per day.*

**Top right: INLAND CHEMICALS
OF CANADA LTD. PRINCE
GEORGE**

*manufactures sulphuric acid and
aluminum sulphate for use in the
pulp and paper industry.*

**Left: WHITE TRUCK
MANUFACTURING LTD.
KELOWNA**

*custom design and build
White Star heavy duty trucks
for customers in western Canada
and United States.*



*Above: NOCA DAIRY, VERNON.
Bulk milk tanks in centralized dairy plant.*

*Below: AMERICAN CAN OF CANADA LTD., KELOWNA.
This plant will produce cans for the Interior fruit industry.*

*Bottom: COOPERATIVE FEED SERVICES, PRINCE GEORGE.
Manufactures various forms of livestock and poultry feed.*



*Top: MCGAVINS TOASTMASTER LTD., KELOWNA.
Gas baked bread is prepared for distribution in the B.C. Interior.*

*Above: OKANAGAN BUILDINGS PRODUCTS LTD., PENTICTON.
Concrete block plant uses natural gas for new fast-cure method.*

*Below: EDDY MATCH COMPANY LTD., PLYWOOD
DIVISION, NELSON.
Pictured here is gas-dried wood awaiting further processing.*





PUBLIC AND COMMERCIAL BUILDINGS

Construction of schools, hospitals, institutions, and commercial buildings continues at a high level to keep pace with population growth in Inland's area.



Top: New hospital, Summerland.

Above right: Canada Trust building, Prince George.

Right: New Vernon High School.

Below: Selkirk College, Kinnaid.



INLAND NATURAL GAS CO. LTD.*and Wholly-owned Subsidiaries*

STATEMENT OF CONSOLIDATED INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED JUNE 30

	1968	1967
OPERATING REVENUE		
Sale of gas	\$13,307,665	\$12,988,672
Transportation allowance	151,800	151,800
Connection charges	63,115	59,690
Other operating revenue	264,920	247,457
	<u>13,787,500</u>	<u>13,447,619</u>
OPERATING EXPENSES		
Purchase of gas	6,315,797	6,022,636
Operation and maintenance	1,050,348	1,139,077
Provincial and municipal taxes	360,982	331,203
Franchise expense	211,725	199,773
General and administrative (Note 5)	510,183	547,202
Provision for depreciation (Note 4)	969,513	918,107
	<u>9,418,548</u>	<u>9,157,998</u>
Income from operations	<u>4,368,952</u>	<u>4,289,621</u>
OTHER DEDUCTIONS		
Interest on funded debt	1,529,267	1,568,094
Other interest	179,726	112,811
Amortization of discount and expense of funded debt	97,215	97,215
	<u>1,806,208</u>	<u>1,778,120</u>
Income before taxes thereon	2,562,744	2,511,501
Provision for income taxes (Note 6)	14,323	22,479
NET INCOME for the year	2,548,421	2,489,022
Retained earnings at beginning of year	4,525,654	3,261,884
	<u>7,074,075</u>	<u>5,750,906</u>
Deduct		
Dividends declared on preference shares	400,000	400,000
Dividends declared on common shares	995,191	819,569
Adjustment of prior years' earnings	—	5,683
Abandonment of non-producing properties	313,237	—
	<u>1,708,428</u>	<u>1,225,252</u>
RETAINED EARNINGS at end of year	<u>\$ 5,365,647</u>	<u>\$ 4,525,654</u>

The accompanying notes are part of these financial statements.

INLAND NATURAL GAS CO. LTD.*and Wholly-owned Subsidiaries***CONSOLIDATED****AS AT****ASSETS****CURRENT ASSETS**

	1968	1967
Accounts receivable	\$ 1,604,143	\$ 1,452,502
Mortgages receivable	16,385	255,182
Inventories of materials and supplies, at cost	725,432	768,941
Prepaid expenses	40,587	50,371
	<u>2,386,547</u>	<u>2,526,996</u>

MORTGAGES AND OTHER LONG TERM RECEIVABLES	<u>771,263</u>	<u>521,040</u>
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INVESTMENT IN MARKETABLE SECURITIES, at cost	<u>100,000</u>	<u>—</u>
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PROPERTY, PLANT AND EQUIPMENT, at cost

Natural gas transmission lines and distribution systems	42,611,315	39,993,214
Plant, buildings and equipment	2,739,509	2,696,450
Land and land rights	1,037,681	972,288
	<u>46,388,505</u>	<u>43,661,952</u>
Accumulated depreciation	5,442,858	4,549,354
	<u>40,945,647</u>	<u>39,112,598</u>
Interest in petroleum and natural gas properties	144,360	456,177
Accumulated depletion	50,796	49,150
	<u>93,564</u>	<u>407,027</u>
	<u>41,039,211</u>	<u>39,519,625</u>

OTHER ASSETS AND DEFERRED CHARGES

Commission and expense on issue of preference shares	1,265,678	1,265,678
Unamortized discount and expense on funded debt	1,330,386	1,427,601
Incorporation and organization expenses	24,724	24,724
	<u>2,620,788</u>	<u>2,718,003</u>
	<u>\$46,917,809</u>	<u>\$45,285,664</u>

The accompanying notes are part of these financial statements.

BALANCE SHEET

JUNE 30

LIABILITIES

CURRENT LIABILITIES

	1968	1967
Bank loan	\$ 2,258,293	\$ 485,520
Bankers' acceptances	1,000,000	1,500,000
Accounts payable	1,097,638	904,410
Interest accrued on funded debt	313,346	321,591
Dividends payable	100,000	100,000
Property and franchise taxes accrued	455,906	441,501
Bonds redeemable within one year	416,000	391,000
	<u>5,641,183</u>	<u>4,144,022</u>

DEFERRED INCOME

92,609 141,618

FUNDED DEBT (Notes 1 and 2)

First Mortgage Sinking Fund Bonds 6¼ % Series C, maturing May 1, 1983	18,478,000	18,894,000
5½ % Convertible Sinking Fund Debentures, Series A maturing February 15, 1977	5,840,000	6,080,000
	<u>24,318,000</u>	<u>24,974,000</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL

5% Cumulative preference shares, par value \$20 per share, redeemable at not more than \$21 per share Authorized: 500,000 shares Issued: 400,000 shares	8,000,000	8,000,000
Common shares, par value \$1 per share Authorized: 5,000,000 shares Issued: 2,341,625 shares	2,341,625	2,341,625

PREMIUM ON COMMON SHARES

1,158,745 1,158,745

RETAINED EARNINGS, per statement attached (Note 3)

5,365,647 4,525,654

16,866,017 16,026,024

\$46,917,809 \$45,285,664

Approved on behalf of the Board

JOHN A. McMAHON, Director

FRED B. BROWN, Director

INLAND NATURAL GAS CO. LTD.*and Wholly-owned Subsidiaries*

**STATEMENT OF CONSOLIDATED SOURCE
AND APPLICATION OF FUNDS
FOR THE YEAR ENDED JUNE 30**

	1968	1967
SOURCE OF FUNDS		
Net income for the year	\$ 2,548,421	\$ 2,489,022
Add – Non cash charges to income		
Depreciation and depletion	969,513	918,107
Amortization of discount and expense of funded debt	97,215	97,215
	<u>3,615,149</u>	<u>3,504,344</u>
 APPLICATION OF FUNDS		
Additions to property, plant and equipment	2,802,336	2,657,252
Investment in marketable securities	100,000	—
Sinking fund for bonds and debentures	656,000	631,000
Dividends on preference and common shares	1,395,191	1,219,569
Increase (decrease) in mortgages and long term receivables (net)	299,232	(61,489)
	<u>5,252,759</u>	<u>4,446,332</u>
 DECREASE IN WORKING CAPITAL	<u>\$ 1,637,610</u>	<u>\$ 941,988</u>

The accompanying notes are part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 1968

1. 5½ % Convertible Sinking Fund Debentures

The 5½ % Convertible Sinking Fund Debentures, Series A are (inter alia) unsecured obligations of the Company but are subject to restrictions of the Trust Indenture dated February 15, 1957. They are callable at a premium of 2.2% up to and including February 14, 1969 and thereafter at a reducing premium. The convertible feature of the debentures expired November 15, 1967.

2. Sinking Fund Requirements

The Trust deeds for the Series C bonds and the Series A debentures, require the Company to establish sinking funds to retire approximately 50% of each issue prior to maturity. The annual requirements to date have been fulfilled by retirement of the stipulated principal amount of such securities. The requirements over the next five years are 1969 – \$656,000; 1970 – \$682,000; 1971 – \$709,000; 1972 – \$739,000; 1973 – \$770,000. Prior to June 30, 1968, the Company had purchased and retired \$240,000 Series A debentures in satisfaction of the 1969 sinking fund requirement for this issue.

3. Dividends

Under the provisions of the Trust Indenture covering the issue of the 6¼ % First Mortgage Sinking Fund Bonds, Series C, certain tests must be met before the Company can pay dividends on its Common Shares. The application of these tests to the accompanying financial statements indicates that all of the Company's retained earnings are available for distribution.

4. Depreciation

Depreciation is computed in conformity with requirements of the Public Utilities Commission of British Columbia whereby approved depreciation rates for each class of plant are applied to the Company's investment in such plant at the beginning of the year. This procedure yielded a composite rate of 2.36% for the year ended June 30, 1968.

5. Directors' Remuneration

The total amount deducted in the Statement of Consolidated Income in respect of remuneration to directors including president's salary was \$53,800.

6. Income Taxes

Certain overhead expenses which have been and continue to be capitalized in the Company's accounts are now being claimed for income tax purposes in the year incurred. The retroactive impact of these adjustments created a loss carry-forward for tax purposes of \$1,317,000 as at June 30, 1967.

Further, as has been the practice in prior years, the Company and its subsidiaries are claiming capital cost allowances for income tax purposes in excess of depreciation recorded in their accounts.

As a result of the foregoing, (1) the combined provision for income taxes is approximately \$1,258,000 less than the provision that would otherwise have been charged against income for the 1968 fiscal year, (2) the accumulated amount by which income taxes have been so reduced in 1968 and prior years is approximately \$5,793,000 and (3) the Company has created a loss carry-forward of approximately \$120,000 for income tax purposes as at June 30, 1968.

In September 1964, the Public Utilities Commission changed its method of calculating income taxes in the regulation of natural gas companies in order that the savings resulting from the use of capital cost allowances in excess of depreciation provided would flow through to the consumers. For regulatory purposes only, the total tax differential accumulated by the Commission is being credited to income tax expense at the rate of approximately \$160,000 per annum plus interest for the fiscal years 1964 to 1968 inclusive. No change is required in the Company's accounts which, as approved by the Commission, do reflect the "flow-through" basis for income taxes.

7. Contingent Liability

The Company has guaranteed collection of certain second mortgages in the amount of \$422,000 as at June 30, 1968 sold by Inland Development Co. Ltd.

8. Lease Commitment

The Company has entered into an agreement to lease approximately 13,000 square feet of office space from Macmillan Bloedel Limited at a yearly rental of \$83,100 for a period of ten years. The lease will commence at the time of occupancy which is expected to be early in 1969.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Inland Natural Gas Co. Ltd. and its wholly-owned subsidiaries as at June 30, 1968 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

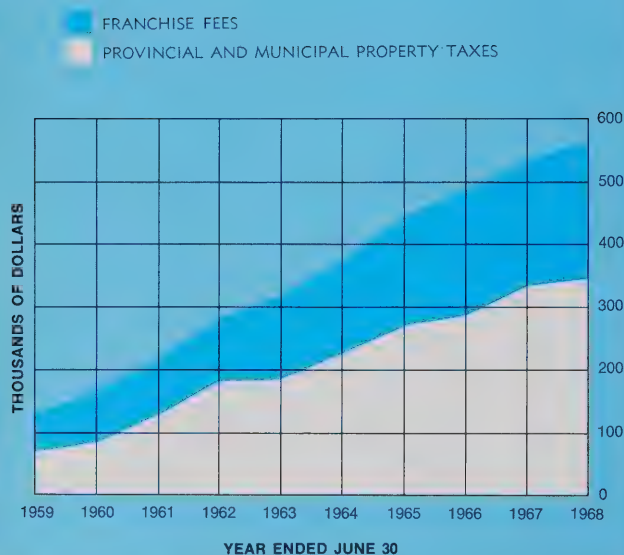
Vancouver, B.C.
September 6, 1968

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

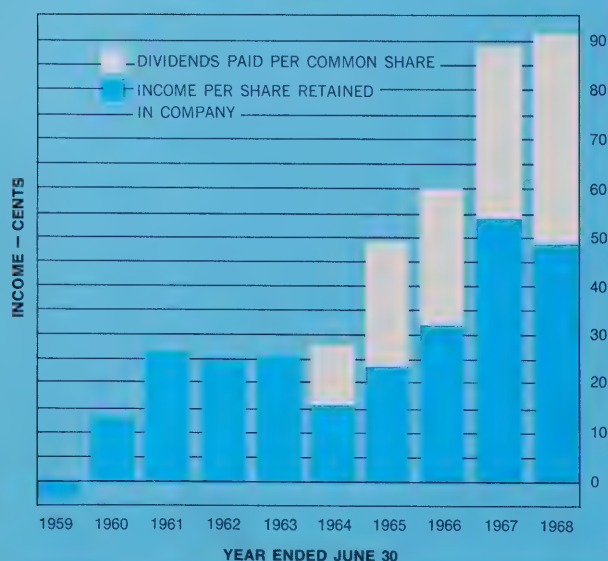
RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants

COMPARATIVE STATEMENT O

TAX COSTS



NET INCOME AND DIVIDENDS PER COMMON SHARE



1968

OPERATING REVENUES

Sale of gas	\$12,545,300
Transportation allowance*	151,800
Connection charges	63,115
Other operating income	251,299
	<u>13,011,514</u>

OPERATING EXPENSES

Purchase of gas	5,971,774
Operation and maintenance	984,408
Provincial and municipal taxes	346,214
Franchise expense	211,725
General and administrative	501,964
Provision for depreciation	916,347
	<u>8,932,432</u>

INCOME FROM OPERATIONS 4,079,082

OTHER DEDUCTIONS

Interest on borrowed money	1,708,993
Amortization of debt discount and expense	97,215
Loss on disposal of fixed assets	—
	<u>1,806,208</u>

NET INCOME 2,272,874

INCOME FROM SUBSIDIARY COMPANIES (net)

275,547

NET CONSOLIDATED INCOME \$ 2,548,421

DIVIDENDS

Preference shares	\$ 400,000
Common shares	995,191
Total dividends	<u>\$ 1,395,191</u>

NUMBER OF COMMON SHARES 2,341,625

EARNINGS PER COMMON SHARE

(after provision for preference dividends) \$.92

DIVIDENDS PER COMMON SHARE \$.42½

CONSOLIDATED INCOME AND DIVIDENDS

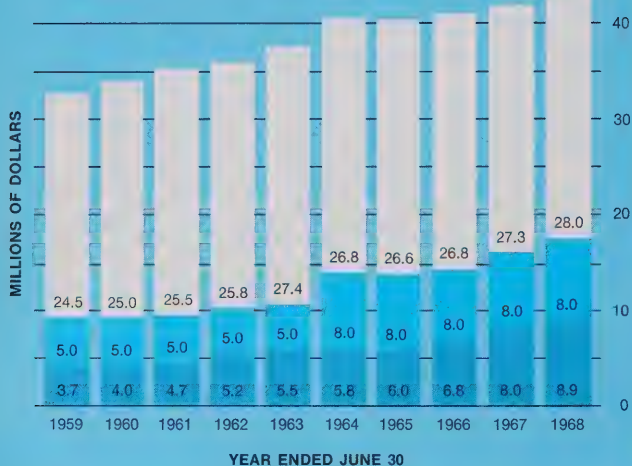
1967	1966	1965	1964	1963	1962	1961	1960	1959
12,234,227	9,799,765	8,479,660	7,423,563	6,556,089	5,878,547	4,868,967	3,857,049	2,418,753
151,800	174,053	175,656	151,800	151,800	151,800	568,470	642,604	589,866
59,690	57,310	47,317	41,570	37,260	30,965	27,250	25,325	24,060
232,753	191,754	162,873	150,617	90,188	36,894	29,726	64,564	20,857
<u>12,678,470</u>	<u>10,222,882</u>	<u>8,865,506</u>	<u>7,767,550</u>	<u>6,835,337</u>	<u>6,098,206</u>	<u>5,494,413</u>	<u>4,589,542</u>	<u>3,053,536</u>
5,694,852	4,280,876	3,557,154	3,212,773	2,996,460	2,750,838	2,527,295	2,078,833	1,176,686
1,075,979	975,191	769,718	686,755	615,373	482,089	368,406	337,339	285,160
316,294	298,680	262,875	225,686	185,064	168,141	122,994	85,307	76,201
199,773	192,324	175,890	147,940	128,841	116,549	88,445	81,322	59,395
542,463	416,817	366,420	295,732	221,411	180,155	171,731	139,350	184,350
868,390	803,515	768,834	733,427	493,426	244,783	25,280	25,527	64,650
<u>8,697,751</u>	<u>6,967,403</u>	<u>5,900,891</u>	<u>5,302,313</u>	<u>4,640,575</u>	<u>3,942,555</u>	<u>3,304,151</u>	<u>2,747,678</u>	<u>1,846,442</u>
3,980,719	3,255,479	2,964,615	2,465,237	2,194,762	2,155,651	2,190,262	1,841,864	1,207,094
1,680,905	1,637,693	1,631,624	1,637,036	1,582,600	1,524,156	1,477,505	1,451,009	1,321,578
97,215	97,215	97,215	97,130	61,468	57,277	46,286	43,966	44,249
—	—	—	379	3,801	6,593	11,576	—	—
<u>1,778,120</u>	<u>1,734,908</u>	<u>1,728,839</u>	<u>1,734,545</u>	<u>1,647,869</u>	<u>1,588,026</u>	<u>1,535,367</u>	<u>1,494,975</u>	<u>1,365,827</u>
2,202,599	1,520,571	1,235,776	730,692	546,893	567,625	654,895	346,889	(158,733)
286,423	285,628	301,741	314,517	322,701	264,041	236,924	212,200	306,004
<u>2,489,022</u>	<u>1,806,199</u>	<u>1,537,517</u>	<u>1,045,209</u>	<u>869,594</u>	<u>831,666</u>	<u>891,819</u>	<u>559,089</u>	<u>147,271</u>
400,000	400,000	400,000	400,000	250,000	250,000	250,000	250,000	250,000
819,569	643,948	585,406	292,703	—	—	—	—	—
<u>1,219,569</u>	<u>1,043,948</u>	<u>985,406</u>	<u>692,703</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>
2,341,625	2,341,625	2,341,625	2,341,625	2,341,625	2,341,625	2,341,325	2,341,300	2,341,300
.89	.60	.49	.28	.26	.25	.27	.13	(.04)
.35	.27½	.25	.12½	—	—	—	—	—

*Compensation paid by Westcoast Transmission Company Limited to Inland Natural Gas Co. Ltd. for the use of Inland's transmission facilities.

CONSOLIDATED BALANCE

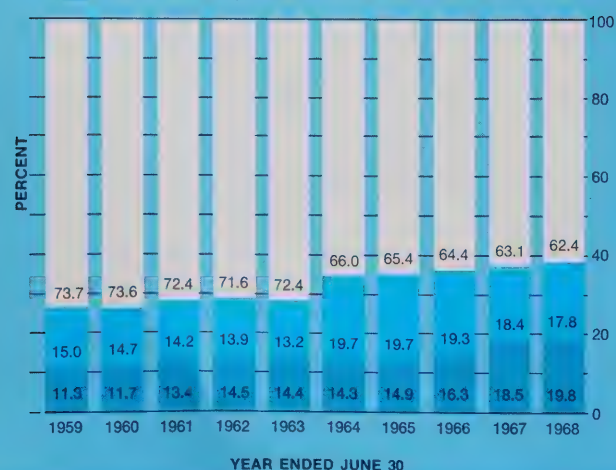
CAPITAL STRUCTURE

TOTAL DEBT
 PREFERRED SHARES
 COMMON SHARES, PREMIUM
 AND RETAINED EARNINGS



CAPITAL RATIOS

TOTAL DEBT
 PREFERRED SHARES
 COMMON SHARES, PREMIUM & RETAINED EARNINGS



MILES OF COMPANY OWNED LINES

	1968
Transmission	481
Distribution	626
Services	491
Transmission-subsidiaries	115

UTILITY PLANT (\$000)

Transmission	\$19,300
Distribution	20,806
Stand-by	337
General	2,963
Construction work in process	615
Total Utility Plant	44,021

SUBSIDIARIES' PLANT	2,512
	<u>\$46,533</u>

ACCUMULATED DEPRECIATION

Inland Natural Gas Co. Ltd.	4,862
Subsidiary companies (including depletion)	632
	<u>5,494</u>

NET CONSOLIDATED PLANT	<u>\$41,039</u>
------------------------------	-----------------

CAPITALIZATION (\$000)

First mortgage bonds	\$18,894
Debentures	5,840
Short term notes and bank loan (net)	3,258
Total debt	27,992
Preference shares	8,000
Common shares	2,342
Premium on common shares	1,159
Retained earnings	5,366
	<u>\$44,859</u>

PERCENT OF TOTAL CAPITALIZATION

First mortgage bonds	42.1
Debentures	13.0
Short term notes and bank loan (net)	7.3
Total percent of debt	62.4
Preference shares	17.8
Common shares	5.2
Premium on common shares	2.6
Retained earnings	12.0
	<u>100.0</u>

RATIOS

First mortgage debt interest - times earned	3.65
Total debt interest - times earned	2.56
Preference dividends - times earned	6.37

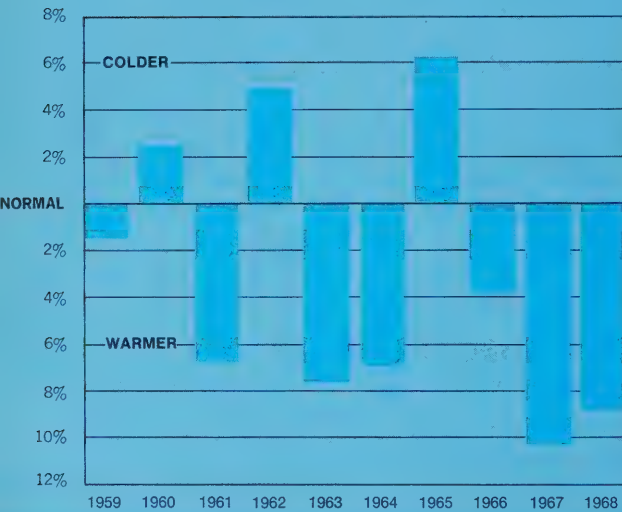
SHEET INFORMATION

1967	1966	1965	1964	1963	1962	1961	1960	1959
471	440	408	400	393	391	390	386	385
576	541	496	457	433	393	375	356	340
458	424	385	351	319	282	253	220	183
109	109	102	102	102	102	96	96	96
18,570	18,081	17,544	17,231	17,190	16,806	16,787	16,564	16,393
19,258	17,818	16,098	14,890	13,605	12,209	11,202	10,331	9,428
333	324	321	319	318	318	319	314	311
2,953	2,780	2,639	2,381	2,251	1,756	1,784	1,637	1,607
508	68	50	39	77	7	9	6	25
41,622	39,071	36,652	34,860	33,441	31,096	30,101	28,852	27,764
2,496	2,466	2,298	4,447	4,297	4,461	4,285	4,179	4,038
44,118	41,537	38,950	39,307	37,738	35,557	34,386	33,031	31,802
4,017	3,218	2,455	1,758	1,032	532	255	193	122
581	532	481	1,215	1,091	967	860	728	417
4,598	3,750	2,936	2,973	2,123	1,499	1,115	921	539
39,520	37,787	36,014	36,334	35,615	34,058	33,271	32,110	31,263
19,285	19,653	20,000	20,000	20,000	16,200	16,800	14,400	15,000
6,080	6,320	6,500	6,800	7,027	7,171	7,171	7,171	7,171
2,000	800	100	—	400	2,400	1,500	3,400	2,300
27,365	26,773	26,600	26,800	27,427	25,771	25,471	24,971	24,471
8,000	8,000	8,000	8,000	5,000	5,000	5,000	5,000	5,000
2,342	2,342	2,342	2,342	2,342	2,342	2,341	2,341	2,341
1,159	1,159	1,159	1,159	1,159	1,159	1,157	1,157	1,157
4,526	3,262	2,519	2,316	1,964	1,734	1,224	483	256
43,392	41,536	40,620	40,617	37,892	36,006	35,193	33,952	33,225
44.5	47.3	49.2	49.3	52.8	45.0	47.7	42.4	45.2
14.0	15.2	16.0	16.7	18.5	19.9	20.4	21.2	21.6
4.6	1.9	.2	—	1.1	6.7	4.3	10.0	6.9
63.1	64.4	65.4	66.0	72.4	71.6	72.4	73.6	73.7
18.4	19.3	19.7	19.7	13.2	13.9	14.2	14.7	15.0
5.4	5.6	5.8	5.8	6.2	6.5	6.6	6.9	7.0
2.7	2.8	2.9	2.8	3.0	3.2	3.3	3.4	3.5
10.4	7.9	6.2	5.7	5.2	4.8	3.5	1.4	.8
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
3.50	2.91	2.64	2.25	2.51	2.45	2.85	2.36	1.74
2.55	2.18	2.02	1.72	1.63	1.62	1.66	1.45	1.18
6.22	4.52	3.84	2.61	3.48	3.33	3.57	2.24	.59

COMPARATIVE STATEMENT OF SALES

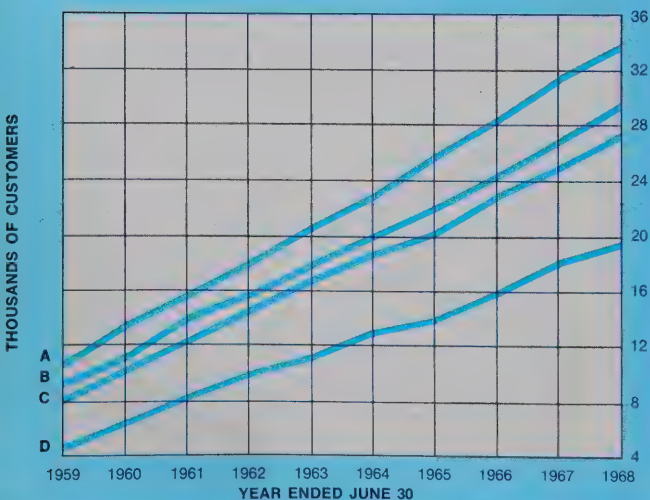
AREA TEMPERATURES

BASED ON 30 YEAR AVERAGE
Climatology Division, Meteorological Branch
Dominion Dept. of Transport



CUSTOMER UTILIZATION

A TOTAL CUSTOMERS C RESIDENTIAL SPACE HEATING
B TOTAL RESIDENTIAL D RESIDENTIAL HOT WATER



REVENUE (\$000)

	1968
Residential	\$ 3,994
Commercial	2,748
Special construction	28
Small industrial	1,142
Industrial	4,633
Total natural gas revenue	<u>\$12,545</u>

SALES (MMcf)

Residential	3,424
Commercial	2,702
Special construction	38
Small industrial	1,688
Industrial	12,218
Total natural gas sales	<u>20,070</u>

CUSTOMERS AT YEAR END

Residential	29,437
Commercial	4,318
Special construction	58
Small industrial	78
Industrial	24
Total customers at year end	<u>33,915</u>

CUSTOMER STATISTICS

Average use per customer (Mcf)

Residential	121
Commercial	649

Average rate per Mcf

Residential	\$ 1.17
Commercial	\$ 1.02

COST OF NATURAL GAS PURCHASED (\$000) \$ 5,972

VOLUME OF NATURAL GAS PURCHASED (MMcf) 19,823

MAXIMUM DAY SENDOUT (Mcf) 84,624

URCHASES AND CUSTOMER STATISTICS

1967	1966	1965	1964	1963	1962	1961	1960	1959
3,862	3,804	3,722	3,159	2,788	2,601	2,068	1,832	1,292
2,391	2,421	2,201	1,720	1,491	1,397	1,130	1,011	692
45	66	1	—	—	—	—	—	—
1,238	837	535	376	243	146	131	110	54
4,698	2,672	2,021	2,169	2,034	1,735	1,540	904	381
<u>12,234</u>	<u>9,800</u>	<u>8,480</u>	<u>7,424</u>	<u>6,556</u>	<u>5,879</u>	<u>4,869</u>	<u>3,857</u>	<u>2,419</u>

3,020	2,772	2,546	2,133	1,867	1,790	1,391	1,267	874
2,295	2,171	1,895	1,456	1,257	1,197	947	863	605
59	89	1	—	—	—	—	—	—
1,842	1,211	747	527	345	209	199	155	85
12,543	7,103	5,420	5,964	5,680	4,953	4,428	2,773	1,340
<u>19,759</u>	<u>13,346</u>	<u>10,609</u>	<u>10,080</u>	<u>9,149</u>	<u>8,149</u>	<u>6,965</u>	<u>5,058</u>	<u>2,904</u>

27,133	24,508	22,020	20,148	18,007	15,739	13,798	11,686	9,203
4,013	3,687	3,355	2,979	2,677	2,266	1,986	1,732	1,347
219	398	20	—	—	—	—	—	—
79	73	58	48	36	22	13	13	10
23	19	19	23	23	20	14	10	9
<u>31,467</u>	<u>28,685</u>	<u>25,472</u>	<u>23,198</u>	<u>20,743</u>	<u>18,047</u>	<u>15,811</u>	<u>13,441</u>	<u>10,569</u>

117	119	121	112	111	121	109	121	116
596	617	598	515	509	563	509	561	542

1.28	1.37	1.46	1.48	1.49	1.45	1.49	1.45	1.48
1.04	1.12	1.16	1.18	1.19	1.17	1.19	1.17	1.14

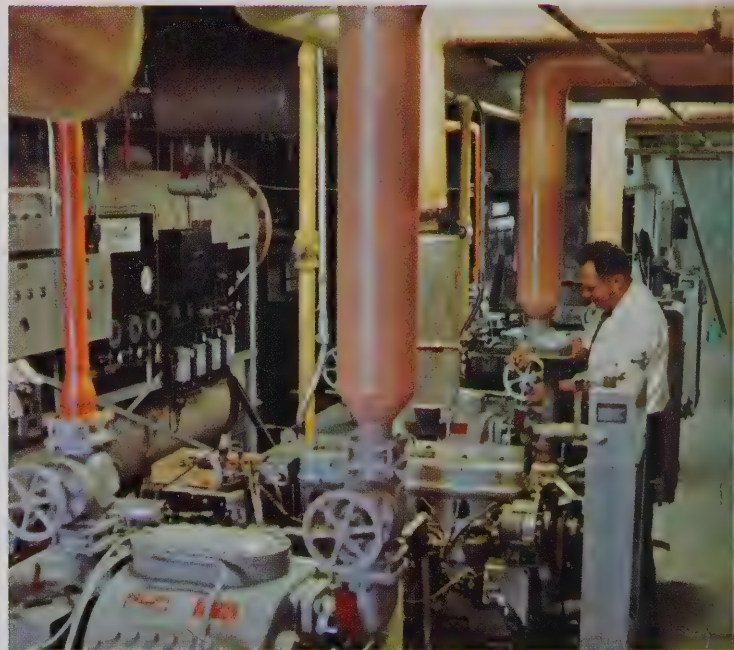
5,695	4,281	3,557	3,213	2,996	2,751	2,527	2,079	1,177
19,387	13,103	10,513	10,011	9,031	8,058	6,931	5,043	2,910
80,447	58,353	51,740	42,711	48,466	43,393	31,614	23,609	24,783

NATURAL GAS UTILIZATION

Illustrated on this page are some of the various ways natural gas works for Inland customers.

Right: Natural gas cutting torch slices through plate steel.

Below: Molten aluminum for casting is ladled out of gas-fired crucible furnace.



Right: Natural gas engines make ice for Interior sports centre.

Below right: Hospital worker using gas-fired commercial ironer.

Below: Peaches are prepared by Okanagan cannery workers for cooking in continuous process gas cookers.



COMMUNITIES SERVED

W. A. C. Bennett Damsite
Hudson's Hope
Chetwynd
Mackenzie
Shelly
Prince George
Quesnel
Williams Lake
Lac La Hache
100 Mile House
Merritt

Princeton

Savona

Brocklehurst

Kamloops

Westsyde

Valleyview

Falkland

Armstrong

Enderby

Salmon Arm

Canoe

Vernon

Coldstream

Oyama

Winfield

Kelowna

Okanagan Mission

Rutland

Peachland

Westbank

Summerland

Penticton

Naramata

Okanagan Falls



TELEMETERING EQUIPMENT

Data on pressures and gas volumes from various points on Inland's system are electronically fed into the telemeter control panel pictured above enabling engineers to monitor system performance and adjust daily gas purchases to the most economic level.

Oliver
Osoyoos
Midway
Grand Forks
Rossland
Trail
Tadanac
Warfield
Kinnaird
Castlegar
Robson
Nelson

NATURAL GAS UTILIZATION

Illustrated on this page are some of the various ways natural gas works for Inland customers.

Right: Natural gas cutting torch slices through plate steel.

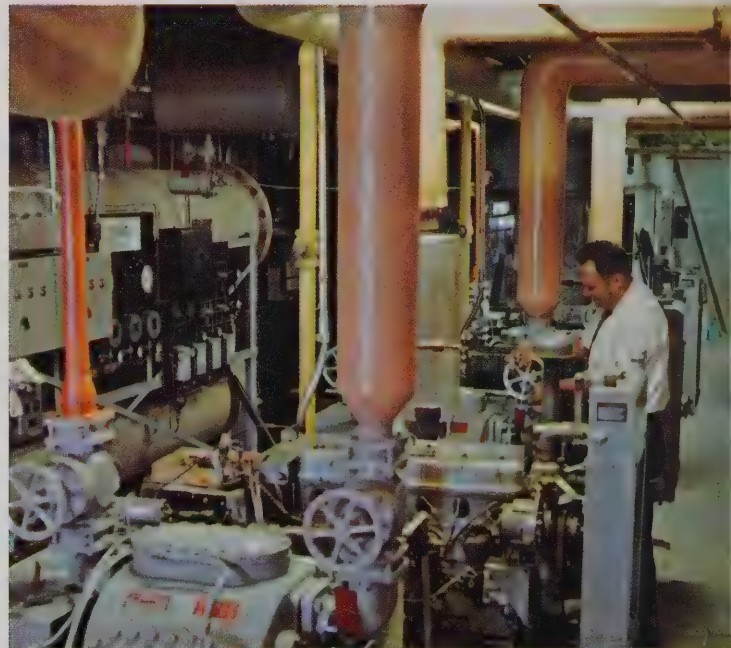
Below: Molten aluminum for casting is ladled out of gas-fired crucible furnace.



Right: Natural gas engines make ice for Interior sports centre.

Below right: Hospital worker using gas-fired commercial ironer.

Below: Peaches are prepared by Okanagan cannery workers for cooking in continuous process gas cookers.



COMMUNITIES SERVED

W. A. C. Bennett Damsite
Hudson's Hope
Chetwynd
Mackenzie
Shelly

subsidiary companies

1970

	1970	1969
Assets	\$ 794,584	\$ 1,795,673
Current assets	1,000,000	1,500,000
Investments	1,235,354	1,541,211
Fixed assets	100,000	100,000
Accumulated depreciation	265,069	692,938
Accrued interest	603,525	513,640
Accrued taxes	488,470	475,915
Accrued interest on one year	469,000	442,000
	<u>4,956,002</u>	<u>7,061,377</u>
Working Fund Bonds, 1983	17,567,000	18,036,000
Working Fund Bonds, per 31, 1989	5,000,000	—
Working Fund Debentures, per 15, 1977	5,600,000	5,840,000
	<u>28,167,000</u>	<u>23,876,000</u>

SHAREHOLDERS' EQUITY

Common shares, par value		
Outstanding at not		
are		
shares		
shares	8,000,000	8,000,000
at \$1 per share		
100 shares		
13 shares	2,571,843	2,571,843
OUTSTANDING SHARES	3,230,707	3,230,707
Retained earnings	6,793,378	6,121,365
	<u>20,595,928</u>	<u>19,923,915</u>
	<u>\$53,718,930</u>	<u>\$50,861,292</u>

INLAND

NATURAL GAS CO. LTD.

INTERIM REPORT

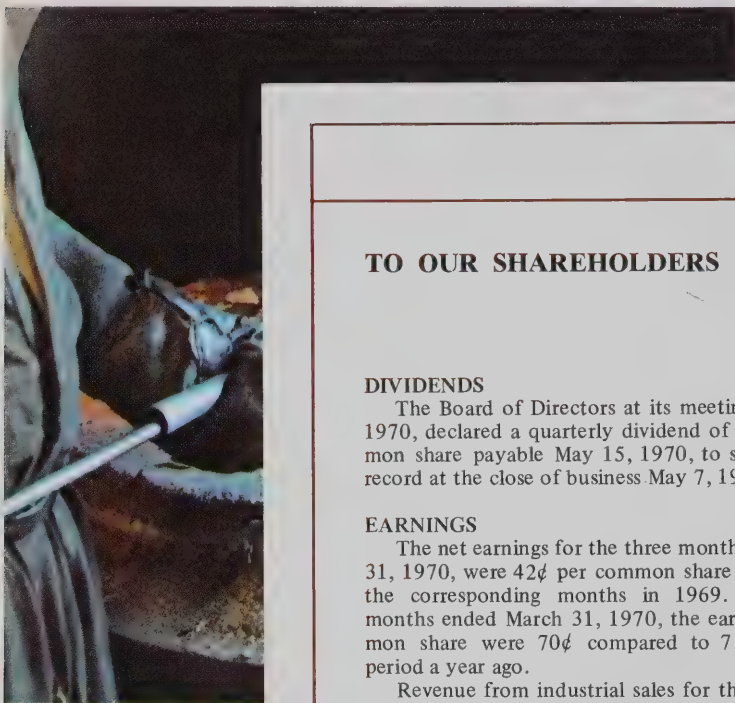
MARCH 31, 1970

NATURAL GAS UTILIZATION

Illustrated on this page are some of the various ways natural gas works for Inland customers.

Right: Natural gas cutting torch slices through plate steel.

Below: Molten aluminum for casting is ladled out of gas-fired crucible furnace.



Right: Natural gas eng.

Below right: Hospital w

*Below: Peaches are pr
for cooking in continu*



INLAND NATURAL GAS CO. LTD.

TO OUR SHAREHOLDERS

DIVIDENDS

The Board of Directors at its meeting on April 28, 1970, declared a quarterly dividend of 12½¢ per common share payable May 15, 1970, to shareholders of record at the close of business May 7, 1970.

EARNINGS

The net earnings for the three months ended March 31, 1970, were 42¢ per common share versus 37¢ for the corresponding months in 1969. For the nine months ended March 31, 1970, the earnings per common share were 70¢ compared to 71¢ in the like period a year ago.

Revenue from industrial sales for the nine months ended March 31, 1970, was \$3,526,725 or \$241,898 more than the comparable period a year ago. This gain was achieved even though one of our large industrial customers that produces chemical fertilizers from natural gas curtailed production at the end of September 1969 due to a general over-supply situation.

Comparative financial statements for the period ending March 31, 1970, are set forth herewith.

OUTLOOK

A continuation of the above-average growth rate in your Company's service area is reflected in the acquisition of 3,388 new customers as compared to 2,487 for the like period in the previous year. There are a number of plants under construction to manufacture pulp, plywood and lumber. In the mining industry, there are several major exploration programs involving large capital outlays and this too, is contributing to the growth in the areas served by your Company.

Among the larger projects presently under construction is Hiram Walker's \$30 million distillery at Winfield and B.C. Forest Product's \$90 million pulp and wood products complex at Mackenzie. These two projects alone will provide for a substantial increase in the labour force in your Company's service area with the attendant need for several hundred homes.

Northwood Pulp Limited, a subsidiary of Noranda Mines Limited, is increasing the capacity of its bleached kraft mill at Prince George from a daily production of 625 tons to 800 tons. In addition, Northwood is building large sawmills at Prince George, Princeton, and Okanagan Falls. This will require a capital outlay of about \$20 million.

At Quesnel, there is approximately \$6 million being spent on additions to existing mills and preliminary work has commenced on the construction of a 600 ton pulp mill by Weldwood of Canada Limited and their Japanese partners, Daishowa Paper Manufacturing Co. and Marubeni-Iida.

Crown Zellerbach Canada Limited is constructing a \$4.5 million corrugated container plant at Kelowna and an \$8 million plywood plant at Armstrong. Initially, these operations are expected to employ 150 people. The company has indicated that economic and site feasibility studies are planned for a pulp mill in British Columbia's southern interior.

In addition to the major projects mentioned above, there are a number of small manufacturing plants that are settling in the area under the Federal Incentives Program. Collectively, there is considerable diversification as to the products which they produce, hence they make an important addition to the industrial activities in our service area.

REGIONAL DEVELOPMENT INCENTIVES ACT

The West Kootenays were recently designated as a region in which industry may apply for Federal grants under the above Act passed by the Federal Parliament in mid-1969. Incentive grants are available for all kinds of manufacturing operations and many kinds of processing operations including advance processing in the resources industries such as petro-chemical operations, the production of metals, the manufacture of paper and paperboard from pulp, sawmilling and lumber operations, along with food processing. The maximum grant for any one of these projects is \$12 million.

This exceptional opportunity available to industry to locate in this region, which is rich in resources, is currently being studied by a number of major industrial companies and we may expect some significant announcements this year.

Robert Mahon

Chairman and President.

Vancouver, B.C.
May 4, 1970.

**COMMUNITIES
SERVED**

W. A. C. Bennett Damsite
Hudson's Hope
Chetwynd
Mackenzie
Shelly

and wholly-owned subsidiary companies

COMPARATIVE STATEMENT OF CONSOLIDATED INCOME

(Subject to audit)

	Three Months Ended		Nine Months Ended	
	Mar. 31, 1970	Mar. 31, 1969	Mar. 31, 1970	Mar. 31, 1969
Revenue				
Sale of gas	\$ 4,841,860	\$ 4,875,146	\$11,385,620	\$11,276,624
Transportation allowance	57,698	60,406	175,787	141,050
Subsidiary companies (net before income tax)	32,096	89,627	189,065	250,371
Other income	128,809	108,669	256,286	227,968
	<u>5,060,463</u>	<u>5,133,848</u>	<u>12,006,758</u>	<u>11,896,013</u>
Expenses				
Purchase of gas	1,954,019	2,110,641	5,178,592	5,145,295
Operating expenses	649,834	764,638	1,797,481	1,856,592
Interest and amortization of long term debt	483,742	393,192	1,475,329	1,193,986
Interest on bank loan	42,835	35,557	72,600	195,438
Depreciation and depletion, including subsidiaries	264,444	258,086	785,321	763,253
	<u>3,394,874</u>	<u>3,562,114</u>	<u>9,309,323</u>	<u>9,154,564</u>
Income before income taxes	1,665,589	1,571,734	2,697,435	2,741,449
Provision for income taxes	494,764	552,128	607,675	698,751
Net income	1,170,825	1,019,606	2,089,760	2,042,698
Dividends declared on preference shares	100,000	100,000	300,000	300,000
	<u>\$ 1,070,825</u>	<u>\$ 919,606</u>	<u>\$ 1,789,760</u>	<u>\$ 1,742,698</u>
Average common shares outstanding on March 31st	2,571,843	2,456,734	2,571,843	2,456,734
Earnings per average common share (after provision for dividends on preference shares)	\$0.42	\$0.37	\$0.70	\$0.71
Sale of natural gas — Mcf	6,448,084	6,409,474	15,960,828	16,048,611

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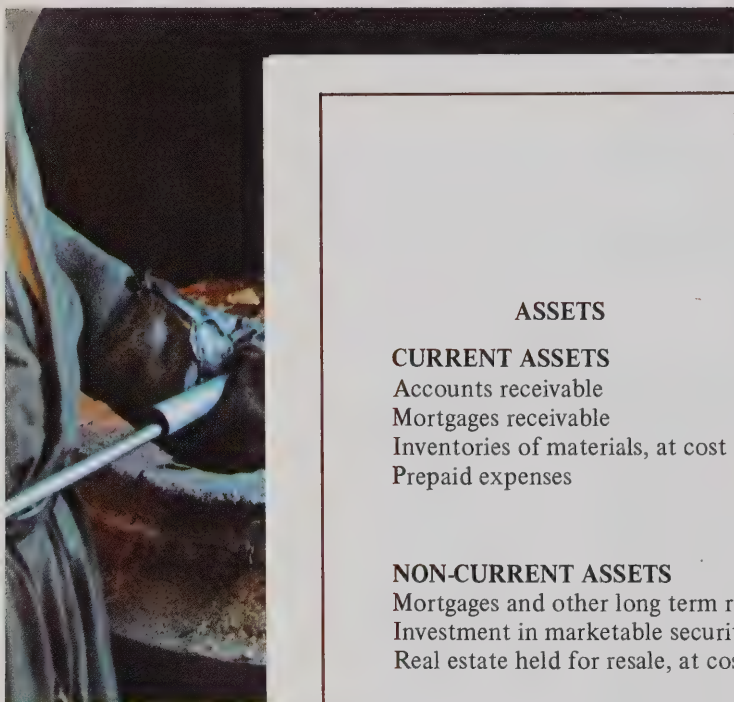
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NATURAL GAS UTILIZATION

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Below: Peaches are pr
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INLAND NATURAL GAS CO. LTD. and wholly-owned

CONSOLIDATED BALANCE SHEET as at March (Subject to audit)

ASSETS	1970	1969	LIABILITIES
CURRENT ASSETS			CURRENT LIABILITIES
Accounts receivable	\$ 2,741,408	\$ 2,926,793	Bank loan
Mortgages receivable	13,000	18,000	Bankers' acceptance
Inventories of materials, at cost	971,744	729,113	Accounts payable
Prepaid expenses	81,456	100,315	Dividends payable
	<u>3,807,608</u>	<u>3,774,221</u>	Income taxes
			Interest accrued on
NON-CURRENT ASSETS			Property and franchise
Mortgages and other long term receivables	588,393	646,998	Bonds redeemable
Investment in marketable securities, at cost	100,000	100,000	
Real estate held for resale, at cost	351,433	564,228	
	<u>1,039,826</u>	<u>1,311,226</u>	
PROPERTY, PLANT AND EQUIPMENT, at cost			FUNDED DEBT
Natural gas transmission lines and			6¼% First Mortgage
distribution systems	48,925,426	45,225,174	Series C, due March
Plant, buildings and equipment	3,098,431	2,928,767	8% First Mortgage
Land and land rights	1,273,154	1,141,303	Series D, due December
	<u>53,297,011</u>	<u>49,295,244</u>	5½% Convertible Series
Accumulated depreciation	7,036,915	6,146,112	Series A, due February
	<u>46,260,096</u>	<u>43,149,132</u>	
Interest in petroleum and natural			SHAREHOLDERS
gas properties	80,338	127,621	SHARE CAPITAL
Accumulated depletion	53,331	52,030	5% Cumulative preferred
	<u>27,007</u>	<u>75,591</u>	\$20 per share, payable
	<u>46,287,103</u>	<u>43,224,723</u>	more than \$21 per share
OTHER ASSETS AND DEFERRED CHARGES			Authorized: 50,000 shares
Commission and expense on issue of			Issued: 40,000 shares
preference shares	1,265,678	1,265,678	Common shares, paid up
Unamortized discount and expense on			Authorized: 50,000 shares
funded debt	1,293,607	1,260,720	Issued: 2,500 shares
Incorporation and organization expenses	25,108	24,724	
	<u>2,584,393</u>	<u>2,551,122</u>	PREMIUM ON COMMON
	<u>\$53,718,930</u>	<u>\$50,861,292</u>	RETAINED EARNINGS

COMMUNITIES SERVED

W. A. C. Bennett Damsite
Hudson's Hope
Chetwynd
Mackenzie
Shelly
Prince George
Quesnel
Williams Lake
Lac La Hache
100 Mile House
Merritt

Princeton

Savona

Brocklehurst

Kamloops

Westsyde

Valleyview

Falkland

Armstrong

Enderby

Salmon Arm

Canoe

Vernon

Coldstream

Oyama

Winfield

Kelowna

Okanagan Mission

Rutland

Peachland

Westbank

Summerland

Penticton

Naramata

Okanagan Falls



TELEMETERING EQUIPMENT

Data on pressures and gas volumes from various points on Inland's system are electronically fed into the telemeter control panel pictured above enabling engineers to monitor system performance and adjust daily gas purchases to the most economic level.

Oliver
Osoyoos
Midway
Grand Forks
Rossland
Trail
Tadanac
Warfield
Kinnaird
Castlegar
Robson
Nelson



Peace River

River

Grande Prairie

B.C.-ALBERTA BOUNDARY

Fort St. John

Taylor

Hudson's Hope

W.A.C. Bennett's Damsite

Chetwynd

Mackenzie

Fort St. James

Shelley

PRINCE GEORGE

Vanderhoof

Barkerville

Quesnel

Quesnel Lake

Jasper

Inland Natural Gas Co. Ltd.
Distribution Area

	Inland Natural Gas Co. System Lines
	Inland Natural Gas Co. Proposed Line
	Other Natural Gas Transmission Lines
	Subsidiary Co. Transmission Lines
	Communities Served by Inland Natural Gas Co.
	Compressor Station

Scale: Miles
0 20 40

ALBERTA



Williams Lake

Lac La Hache

100 Mile House

Fraser River

Clinton

Ashcroft

Savona

KAMLOOPS

Canoe

Salmon Arm

Falkland

Enderby

Armstrong

VERNON

Coldstream

COMPRESSION STATION

Okanagan Lake

Oyama

Winfield

Rutland

Naramata

Arrow Lake

NELSON

Robson

Castlegar

Fruitvale

Salmo

Montrose

Kinnaird

Rossland

Grand Forks

Midway

Oliver

Osoyoos

Penticton

Okanagan Falls

Summerland

Peachland

Westbank

Merritt

Princeton

Vancouver

Nanaimo

Bellingham

Victoria

Kimberley

Cranbrook

Creston

Lake Louise

Revelstoke

Shuswap Lake

Columbia River

Columbia River

IDAHO

WASHINGTON

CANADA-U.S.A. BORDER



file **COMPARATIVE STATEMENT OF CONSOLIDATED INCOME**

	Three Months Ended Sept. 30, 1969	Sept. 30, 1968	Twelve Months Ended Sept. 30, 1969	Sept. 30, 1968
Revenue				
Sale of gas	\$2,369,709	\$2,239,598	\$14,090,848	\$12,826,492
Transportation allowance	58,350	37,950	219,800	151,800
Subsidiary companies (net before income tax)	86,262	77,759	322,416	340,914
Other income	60,633	58,144	367,252	310,313
	<u>2,574,954</u>	<u>2,413,451</u>	<u>15,000,316</u>	<u>13,629,519</u>
Expenses				
Purchase of gas	1,416,423	1,305,957	6,813,430	6,152,924
Operating expenses	546,203	469,661	2,485,766	2,072,611
Interest and amortization of long term debt	496,776	402,826	1,699,674	1,616,912
Interest on bank loan	—	65,107	218,432	217,989
Depreciation and depletion, including subsidiaries	261,220	252,258	1,030,090	982,225
	<u>2,720,622</u>	<u>2,495,809</u>	<u>12,247,392</u>	<u>11,042,661</u>
Income (loss) before income taxes	(145,668)	(82,358)	2,752,924	2,586,858
Provision for income taxes	13,728	3,124	543,941	7,911
Net income (loss)	<u>(\$ 159,396)</u>	<u>(\$ 85,482)</u>	<u>\$ 2,208,983</u>	<u>\$ 2,578,947</u>
Dividends declared on preference shares	100,000	100,000	400,000	400,000
	<u>(\$ 259,396)</u>	<u>(\$ 185,482)</u>	<u>\$ 1,808,983</u>	<u>\$ 2,178,947</u>
Total common shares outstanding on September 30th	2,571,843	2,341,625	2,571,843	2,341,625
Average common shares outstanding on September 30th	2,571,843	2,341,625	2,495,104	2,341,625
Earnings (deficit) per average common share (after provision for dividends on preference shares)	(\$0.10)	(\$0.08)	\$0.72	\$0.93
Sale of natural gas — Mcf	3,823,622	3,963,808	20,355,073	20,458,961

The above statement has been prepared from the books of account which are subject to year end audit.

TO OUR SHAREHOLDERS

EARNINGS

We are pleased to report to you the financial results for the quarter ending September 30, 1969, compared to the first quarter 1968, and for your information, there is a twelve month comparative statement included herewith. With respect to the latter, the earnings per share were 72c compared to 93c in the previous year. The main items that contributed to lower earnings per share were an increase in the average number of shares outstanding, the higher unit cost of purchasing natural gas, and your Company's initial income tax obligation on utility earnings.

REVENUE AND EXPENSES

There was a revenue increase of \$161,503 over the same period in the previous year but expenses increased \$224,813. The largest item in the expense account was the cost of gas purchased.

PEAK SHAVING TRANSMISSION FACILITIES

Your Company is at the point of concluding a contract with Alberta and Southern Gas Co. Ltd. for a supply of peaking gas. The contract will result in an increase in the sale of natural gas produced in Northern British Columbia. This is brought about by the fact that Inland will return during the summer months to Alberta and Southern, one and one-half times the quantity of gas Inland takes during the winter months from that company. The transmission link that is now proposed will in fact be a peak shaving facility and will also provide an alternate supply in the event of an emergency such as an interruption on our or Westcoast Transmission Company's system, our primary supplier. Westcoast had a serious failure in one of its supply lines last winter and had this peak shaving link been in service at that time it would not have been necessary to interrupt service to some of our large industrial customers. Because the link will feed gas into the south end of our transmission system during peak periods, the capacity of our transmission line which passes through the Kamloops-Okanagan Valley region on the way to the Trail-Nelson area is increased, which is needed to take care of the rapid load growth in that area. Having this peaking line will also permit us to reduce our billing demand under

our gas purchase contract with Westcoast during extreme peak periods during the winter months and thereby minimize the cost of gas.

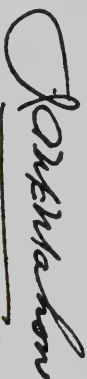
The West Kootenays in southern British Columbia which includes the cities of Nelson, Trail, Rossland, Castlegar and Kinnaird are now designated by the Federal Government to qualify for federal cash grants for new plants and expansions. The added security of supply of natural gas, along with the increased capacity during peak periods that will be derived from the peak shaving link, will be significant in assisting the Trail and Nelson Industrial Development Commissions in persuading industry to settle in the area under the Incentive Program. Natural gas will also be made available to more than 5,000 residents of the communities of Fruitvale, Montrose and Salmo because this line is within easy access to these communities. If the peaking line is not built, natural gas will not be available to these communities. We are going to submit this proposal to the Public Utilities Commission in the hopes that we will receive their approval to implement the program.

OUTLOOK

The outlook for the year is promising; between July 1st and October 17th, 1,890 new services were connected compared to 1,450 in the same period last year. We are getting an excellent response to our conversion program due to the favourable competitive position of natural gas to other fuels. We are also expecting a material gain in revenue from sales to industrial customers.

DIVIDENDS

On September 25th, 1969, the Board of Directors declared a quarterly dividend of 12½c per share on the common stocks, payable November 15, 1969, to shareholders of record at the close of business October 31, 1969.



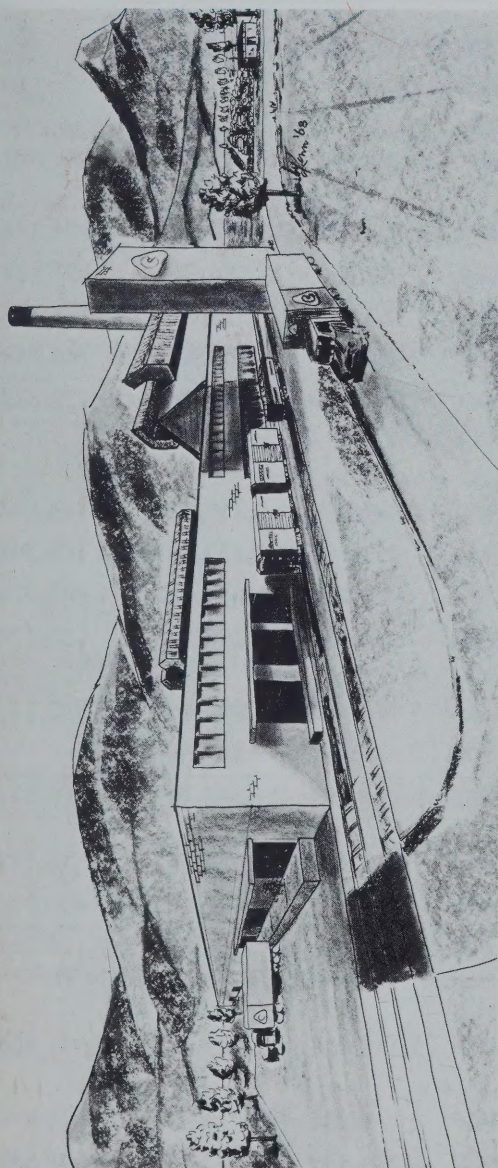
President

Vancouver, B.C.
November 5, 1969

INLAND
NATURAL GAS CO. LTD.

**INTERIM
REPORT**

SEPTEMBER 30, 1969



Artist's conception of Consumers Glass Company Limited's new \$10 million glass container plant now under construction at Lavington, near Vernon, B.C.

AR12

Check

INLAND
NATURAL GAS CO. LTD.

**INTERIM
REPORT**

DECEMBER 31, 1968

TO OUR SHAREHOLDERS

EARNINGS

We are pleased to report to you the results for the quarter ending September 30, 1968, compared to the first quarter 1968, as information, there is a twelve month statement included herewith. With reference, the earnings per share were 72¢ to 93¢ in the previous year. The main contributor to lower earnings per share increase in the average number of shares outstanding, the higher unit cost of natural gas, and your Company's income tax obligation on utility earnings.

REVENUE AND EXPENSES

There was a revenue increase of \$1 million in the same period in the previous year. The expenses increased \$224,813. The large expense account was the cost of gas.

PEAK SHAVING TRANSMISSION FACILITIES

Your Company is at the point of contract with Alberta and Southern Gas for a supply of peaking gas. The result in an increase in the sale of gas produced in Northern British Columbia brought about by the fact that Inland during the summer months to a Southern, one and one-half times the gas Inland takes during the winter months that company. The transmission link proposed will in fact be a peak shaving and will also provide an alternate source of an emergency such as an interruption of our Westcoast Transmission System, our primary supplier. Westcoast has a failure in one of its supply lines last had this peak shaving link been in service it would not have been necessary to some of our large industrial service to the link will feed gas into the transmission system during peak capacity of our transmission line through the Kamloops-Okanagan Valley on the way to the Trail-Nelson area which is needed to take care of the growth in that area. Having this peak shaving also permit us to reduce our billing de-

INLAND NATURAL GAS CO.

COMPARATIVE STATEMENT OF CONSOLIDATED INCOME

(Subject to audit and year-end adjustments)

	Six Months Ended		Twelve Months Ended	
	Dec. 31, 1968	Dec. 31, 1967	Dec. 31, 1968	Dec. 31, 1967
Revenue				
Sale of gas	\$6,401,478	\$5,708,358	\$13,238,421	\$12,361,340
Transportation allowance	80,644	75,900	156,544	151,800
Subsidiary companies (net)	157,621	160,359	325,975	323,330
Other income	119,299	124,779	308,933	286,330
	<u>6,759,042</u>	<u>6,069,396</u>	<u>14,029,873</u>	<u>13,122,800</u>
Expenses				
Purchase of gas	3,034,654	2,749,158	6,257,270	5,774,300
Operating expenses	1,091,954	952,458	2,183,807	2,109,530
Interest and amortization of long term debt	800,794	824,791	1,602,484	1,645,000
Interest on bank loan	159,881	73,461	266,146	135,200
Depreciation and depletion, including subsidiaries	505,167	480,625	994,054	942,150
Income Taxes	143,500	—	143,500	—
	<u>5,735,950</u>	<u>5,080,493</u>	<u>11,447,261</u>	<u>10,606,330</u>
Net Income	<u>1,023,092</u>	<u>988,903</u>	<u>2,582,612</u>	<u>2,516,500</u>
Dividends declared on preference shares	200,000	200,000	400,000	400,000
	<u>\$ 823,092</u>	<u>\$ 788,903</u>	<u>\$ 2,182,612</u>	<u>\$ 2,116,500</u>
Common shares outstanding on December 31st	2,341,625	2,341,625	2,341,625	2,341,625
Earnings per common share (after provision for dividends on preference shares)	\$0.35	\$0.34	\$0.93	\$0.90
Sales of natural gas — Mcf	9,639,137	9,236,485	20,472,794	19,848,800

D. and wholly-owned subsidiary companies

COMPARATIVE STATEMENT OF CONSOLIDATED SOURCE
AND APPLICATION OF FUNDS

	Six Months Ended	
	Dec. 31, 1968	Dec. 31, 1967
Source of Funds		
Net income for the six months	\$1,023,092	\$ 988,903
Add — Non-cash charges to income		
Depreciation and depletion	505,167	480,625
Amortization of discount and expense of funded debt	48,607	48,607
	<u>1,576,866</u>	<u>1,518,135</u>
Application of Funds		
Additions to property, plant and equipment	2,216,706	1,395,043
Land purchased for resale	60,014	—
Dividends on preference and common shares	785,406	668,325
Increase (decrease) in mortgages and long term receivables (net)	(10,856)	64,431
	<u>3,051,270</u>	<u>2,127,799</u>
Decrease in working capital	<u>\$1,474,404</u>	<u>\$ 609,664</u>

TO OUR SHAREHOLDERS

EARNINGS

We are pleased to report to you the final results for the quarter ending September 30, 1968, compared to the first quarter 1968, and for information, there is a twelve month comparison statement included herewith. With respect to latter, the earnings per share were 72c compared to 93c in the previous year. The main items contributed to lower earnings per share were increase in the average number of shares outstanding, the higher unit cost of purchased natural gas, and your Company's initial income tax obligation on utility earnings.

REVENUE AND EXPENSES

There was a revenue increase of \$161,503 the same period in the previous year. Expenses increased \$224,813. The largest item in the expense account was the cost of gas purchased.

PEAK SHAVING TRANSMISSION FACILITIES

Your Company is at the point of concluding a contract with Alberta and Southern Gas Co. for a supply of peaking gas. The contract results in an increase in the sale of natural gas produced in Northern British Columbia. This brought about by the fact that Inland will be during the summer months to Alberta Southern, one and one-half times the quantity of gas Inland takes during the winter months. That company. The transmission link that is proposed will in fact be a peak shaving facility and will also provide an alternate supply in event of an emergency such as an interruption of our or Westcoast Transmission Company's system, our primary supplier. Westcoast had a severe failure in one of its supply lines last winter had this peak shaving link been in service at the time it would not have been necessary to interrupt service to some of our large industrial customers. Because the link will feed gas into the southern end of our transmission system during peak periods capacity of our transmission line which passes through the Kamloops-Okanagan Valley region on the way to the Trail-Nelson area is increased which is needed to take care of the rapid growth in that area. Having this peaking line also permit us to reduce our billing demand to

TO OUR SHAREHOLDERS

EARNINGS

This interim report covers the first six months of the fiscal year beginning July 1, 1968, and includes Comparative Statements of Earnings for the six month and twelve month periods ended December 31, 1968.

This report also includes a statement of Source and Application of Funds. You will note in this statement that the capital expenditures were \$2,216,706 for the six months ended December 31, 1968, compared to \$1,395,043 during the same period last year. This is indicative of the growth in the service area.

The net income for the six months ended December 31, 1968, was \$1,023,092. This was after providing income tax of \$143,500. It is significant that this is the first year that the income from Inland's utility operations has attracted any income tax. For the comparable period in 1967, the earnings were \$988,903.

The net earnings per common share, after providing for payment of preference dividends were 35c, compared with 34c in the previous year.

FINANCING

On December 20, 1968, the Company announced to its common shareholders rights in connection with its offering of additional common shares in the capital of the Company at the price of \$10 per share. The common shareholders of record at the close of business on Friday, December 27, 1968, were granted rights to subscribe for additional common shares in the capital of the Company in the proportion of one additional common share for each ten common shares held by them. At the time of writing this quarterly report, over 98% of the shares have been taken up. The issue had wide-spread support from the

investment dealers, stock exchange firms, banks, and trust companies. On behalf of the shareholders, I wish to express our appreciation for this co-operation. The proceeds from the issue will be used to reduce the Company's bank loan, which has been incurred for capital expenditures.

NEW INDUSTRY

You will be pleased to learn that the Kamloops Pulp and Paper Company Limited, now a customer of your Company, has announced plans for an \$80 million expansion to their pulp mill in Kamloops, B.C. The announcement indicated that the daily production of kraft pulp will be increased from 250 tons to 1,000 tons.

INLAND DEVELOPMENT CO. LTD.

Mention was made in our last annual report to shareholders that this Company was becoming involved in certain real estate fields. The Company has purchased 20 acres of property within the City of Vernon and is proceeding immediately with development of a residential subdivision containing approximately 90 lots. Your Company is becoming very active in this field, and there are some significant industrial developments on the planning boards which could have an important bearing on this phase of the Company's operations.

DIVIDENDS

The common shares subscribed and paid for under the rights offering will participate in the quarterly dividend declared by the Board of Directors on January 14, 1969, at the rate of 12½c per share payable February 15, 1969, to shareholders of record as of February 3, 1969.

Robert Mahon

Vancouver, B.C.
February 5, 1969

President